

INTERNATIONAL PRACTICES TASK FORCE
Center for Audit Quality Washington Office
May 25, 2010
HIGHLIGHTS

The Center for Audit Quality (CAQ) SEC Regulations Committee and its International Practices Task Force meet periodically with the staff of the SEC to discuss emerging financial reporting issues relating to SEC rules and regulations. The purpose of the following highlights is to summarize the issues discussed at the meetings. These highlights have not been considered and acted on by senior technical committees of the AICPA, or by the Financial Accounting Standards Board, and do not represent an official position of either organization. The highlights do not represent official positions of the CAQ. As with all other documents issued by the CAQ, these highlights are not considered authoritative and users are urged to refer directly to applicable authoritative pronouncements for the text of the technical literature. These highlights do not purport to be applicable or sufficient to the circumstances of any work performed by practitioners. They are not intended to be a substitute for professional judgment applied by practitioners.

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As available on this website, highlights of the Joint Meetings of the SEC Regulations Committee and its International Practices Task Force and the SEC staff are not updated for the subsequent issuance of technical pronouncements or positions taken by the SEC staff nor are they deleted when they are superseded by the issuance of subsequent highlights or authoritative accounting or auditing literature. As a result, the information, commentary or guidance contained herein may not be current or accurate and the CAQ is under no obligation to update such information. Readers are therefore urged to refer to current authoritative or source material.

I. Attendance

Task Force Members

Paul Curth (Ernst & Young)
Carol Banford (Grant Thornton) (Via Teleconference)
Rich Davisson (McGladrey & Pullen)
Jon Fehleison (KPMG)
Jon Guthart (KPMG)
Michael Liesmann (PwC)
Debra MacLaughlin (BDO)
Victor Oliveira (Ernst & Young)
Joel Osness (Deloitte & Touche) (Via Teleconference)
Catherine Samsel (PricewaterhouseCoopers)
Sondra Stokes (Deloitte & Touche)

Observers

Jill Davis (SEC Staff Observer)
Paul Dudek (SEC Staff Observer)
Susan Koski-Grafer (SEC Staff Observer)
Craig Olinger (SEC Staff Observer)
Allison Patti (SEC Staff Observer)
Annette Schumacher Barr (Center for Audit Quality Staff Observer)

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II. Current Practice Issues

- A. Monitoring inflation in certain countries
- B. Availability of the two year accommodation in Form 20-F for first time IFRS adopters for FPIs electing to file on Form 10-K
- C. Application of ASC 855, Subsequent Events to financial statements of certain Foreign Private Issuers and certain financial statements filed pursuant to S-X Rule 3-05 and Rule 3-09
- D. Acceptance of IFRS for SMEs for financial statements of S-X Rule 3-05 and Rule 3-09 of foreign businesses
- E. SEC matters

A. Monitoring inflation in certain countries

Background

At the March 2003 meeting of the Task Force, it was noted that it would be helpful to be more proactive in providing information about the inflationary status of countries. As a result, it was agreed that a mechanism be developed for proactively monitoring the inflationary status of countries. The approach and the related assumptions used by the Task Force, and the inherent limitations, are summarized in the [May 14, 2009 Task Force meeting Highlights](#).

Conclusion

Countries considered highly inflationary

Based on the World Economic Outlook database – April 2010 Edition:

The following countries should continue to be considered highly inflationary as of March 31, 2010:

- Democratic Republic of Congo (1)
- Myanmar (2)
- Venezuela
- Zimbabwe

Countries on the highly inflationary “watch list”

The following countries are on the Task Force’s inflation “watch list”:

- Eritria
- Ethiopia
- São Tomé and Príncipe (3)
- Seychelles

- (1) The three year cumulative inflation rate through 2009 for The Democratic Republic of the Congo was approximately 113%, having increased dramatically in the later part of 2009.
- (2) The information available on the International Monetary Fund (IMF) website with respect to Myanmar consists of projected data from 2008. Myanmar has not publicly provided information with respect to inflation and there is no central bank website. In light of the fact that current information is not available, and absent evidence to the contrary, Myanmar should remain on the highly inflationary list.
- (3) The three year cumulative inflation rate is just below 85%. Given that São Tomé and Príncipe were on the last watch list, and that the rate is barely below the cut-off, it has been included on the watch list again.

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B. Availability of the two year accommodation in Form 20-F for first time IFRS adopters for FPIs electing to file on Form 10-K

Background

Form 20-F, General Instruction G, provides an accommodation for an issuer that is changing the accounting principles used to prepare its financial statements to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Assuming that the criteria set forth in General Instruction G are met, the earliest of the three years of audited financial statements required by Form 20-F, Item 8.A.2 may be omitted.

The home country regulator in many countries that are transitioning to IFRS only require two years of audited financial statements, following the requirements of IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

Foreign private issuers (FPI) may voluntarily elect to file on domestic forms (e.g., Form 10-K) rather than on Form 20-F. The SEC Staff's Financial Reporting Manual (section 6120.6), provides that FPIs that voluntarily file using domestic forms may use either US GAAP or IFRS as issued by the IASB when preparing their financial statements.

Issue

Can a first-time adopter of IFRS that qualifies as a FPI but voluntarily files its financial statements using the domestic filer forms (e.g., Form 10-K, Form 10-Q) be permitted to avail itself of the accommodation in General Instruction G of Form 20-F, if its home country regulator only requires financial statements required by IFRS 1 (two years, except for the statement of financial position, which is three periods)?

Conclusion

Yes. A FPI that voluntarily reports using domestic forms should be entitled to avail itself of the accommodation for first time adoption of IFRS as if it were filing on Form 20-F if it meets the criteria set forth in General Instruction G. The FPI is receiving no additional relief had the FPI filed on Form 20-F, and investors would benefit from the more timely information provided from continued use of the domestic reporting forms (e.g., quarterly financial statements, proxy information, current event reporting on Form 8-K). Additionally, this is consistent with the requirements of IFRS 1, as well as with what the home country regulator requires upon first time adoption. Also, a requirement to provide three years would effectively change the date of transition to IFRS resulting in different IFRS financial statement amounts from those presented in the home country.

However, Mr. Olinger added that registrants whose home country regulator requires three years of audited financial statements would also be required to provide three years of audited financial statements for SEC reporting purposes.

C. Application of ASC 855, Subsequent Events to financial statements of certain Foreign Private Issuers and certain financial statements filed pursuant to S-X Rule 3-05 and Rule3-09

Background

Statement of Financial Accounting Standards No. 165, *Subsequent Events* (Statement 165), was issued in May 2009, and is effective, on a prospective basis, for interim or annual financial periods ending after September 15, 2009. Statement 165 was codified in ASC 855, *Subsequent Events*. The Task Force discussed the application of ASC 855 to financial statements of certain FPIs and certain financial statements filed pursuant to S-X Rule 3-05 and Rule 3-09. On February 24, 2010, the FASB issued Accounting Standards Update (ASU) 2010-09 to amend ASC 855.

As a result of the ASU, SEC Filers will not be required to disclose the date through which management evaluated subsequent events in the financial statements — either in originally issued financial statements or reissued financial statements. This change addresses practice issues for SEC registrants with respect to processes around issuing financial statements and SEC registration requirements (e.g., incorporation by reference of previously issued financial

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statements). As a result of the ASU, we expect that SEC registrants' considerations with respect to evaluating subsequent events will be consistent with those before the issuance of the subsequent events accounting guidance.

However, all other entities (i.e., entities that are not SEC Filers or conduit bond obligors) are required to evaluate subsequent events through the date that the financial statements are available to be issued and also must disclose that date.

Discussion

The Task Force discussed that ASC 855-10-50-1 requires non-SEC Filers to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Also, certain companies may provide such information on a voluntary basis. The definition of SEC Filer specifically excludes entities that are not otherwise SEC Filers whose financial statements are included in a submission by another SEC Filer. This would include financial statements filed with the SEC pursuant to S-X Rule 3-05 and Rule 3-09 for entities that are not otherwise SEC Filers. Companies filing an initial registration statement would also be considered non-SEC Filers.

The Task Force discussed which date (if any) should be disclosed with respect to financial statements of companies filing an initial registration statement prepared in accordance with Local GAAP and reconciled to U.S. GAAP in accordance with Item 18 of Form 20-F, or S-X Rule 3-05 and Rule 3-09 financial statements prepared in accordance with Local GAAP and reconciled to U.S. GAAP in accordance with Item 18 of Form 20-F on a voluntary basis. The Task Force also discussed situations involving financial statements of non-SEC Filers prepared in accordance with Local GAAP and reconciled to U.S. GAAP in accordance with Item 17 of Form 20-F and whether there is a requirement to provide the disclosures required by ASC 855.

Further discussion is planned in the future.

D. Acceptance of IFRS for SMEs for financial statements of S-X Rule 3-05 and Rule 3-09 of foreign businesses

Background

On July 9, 2009, the International Accounting Standards Board (IASB) issued its International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

IFRS for SMEs is based on the fundamental principles of full IFRS, but in many cases, it has been simplified to make the accounting requirements less complex and to reduce the cost and effort required to produce the financial statements. To achieve this, the IASB has removed a number of the accounting options available under full IFRS and simplified accounting for SMEs in certain areas. As the IFRS for SMEs is a stand-alone standard, it includes a section on the concepts and pervasive principles that underlie the financial statements of SMEs. The IASB considered that the overall principles of IFRS should apply to all entities and, hence, the concepts included in this standard are derived from the IASB Framework. These concepts address issues including the objective of financial statements for SMEs, the qualitative characteristics of information contained in those financial statements, and general recognition and measurement principles.

SMEs are defined in the standard as small and medium-sized entities that do not have public accountability and which also publish general-purpose financial statements for external users. An entity has public accountability if its debt or equity instruments are traded in a public market, or it holds assets in a fiduciary capacity for a broad group of outsiders.

While this definition is necessary for an understanding of the entities to which IFRS for SMEs is applicable, the preface to the standard indicates that the decision as to which entities are required or permitted to apply the standard will lie with the regulatory and legislative authorities in each jurisdiction. However, if a publicly accountable entity uses the standard, it may not claim that the financial statements conform to IFRS for SMEs even if its application is permitted or required in that jurisdiction, as the entity would not meet the definition of an SME.

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SEC Rules

The December 21, 2007 SEC Release No. 33-8879 – *Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP* (Adopting Release), addresses the election of omitting the reconciliation to U.S. GAAP for FPIs that prepare financial statements in accordance with IFRS as issued by the IASB (IFRS-IASB). The Adopting Release clearly states that IFRS for SMEs would not qualify as IFRS-IASB. Footnote 71 of the Adopting Release states:

The amendments would not encompass use of the IASB’s proposed IFRS for Small and Medium-sized Entities (“IFRS for SMEs”), because those proposed standards relate only to smaller issuers that do not have debt or equity securities listed on a public market.

Financial statements filed with the SEC to fulfill the requirements of Regulation S-X Rule 3-05 and Rule 3-09 of entities that qualify as foreign businesses, as defined in S-X 1-02(l), may be prepared in accordance with U.S. GAAP, IFRS-IASB, or according to a comprehensive body of accounting principles other than U.S. GAAP or IFRS-IASB (Local GAAP). If the primary financial statements are prepared in accordance with Local GAAP, reconciliation to U.S. GAAP is required. The reconciliation to U.S. GAAP should meet the requirements of Item 17 of Form 20-F. This accommodation is available for financial statements filed pursuant to the requirements of Regulation S-X Rule 3-05 and Rule 3-09 in filings by both U.S. Domestic registrants and FPIs.

Issue

Should IFRS for SMEs be an acceptable basis of accounting for financial statements of foreign businesses filed pursuant to the requirements of Regulation S-X Rule 3-05 and Rule 3-09?

Conclusion

Yes. IFRS for SMEs represent a comprehensive financial reporting framework that is derived from the fundamental principles of IFRS-IASB. Therefore, IFRS for SMEs should be an acceptable basis of accounting for the preparation of financial statements of a foreign business filed pursuant to the requirements of Regulation S-X Rule 3-05 and Rule 3-09. However, IFRS for SMEs is not an acceptable basis of accounting for the preparation of financial statements of issuers and predecessors of issuers.

Item 17 of Form 20-F permits financial statements of entities that qualify as foreign businesses (filed with the SEC to fulfill the requirements of Rule 3-05 and Rule 3-09) to be prepared in accordance with U.S. GAAP, IFRS-IASB or Local GAAP.” If Local GAAP is used, reconciliation to U.S. GAAP is required. As noted in footnote 71 to the Adopting Release, IFRS for SMEs is not IFRS-IASB. Consequently, for financial statements prepared in accordance with IFRS for SMEs, a reconciliation to U.S. GAAP is required. A reconciliation to IFRS-IASB is not acceptable. As with Local GAAPs, the accommodation to not provide a quantified reconciliation to US GAAP for financial statements of a foreign business filed pursuant to the requirements of Rule 3-05 and Rule 3-09 that are below the 30% significance level is available for financial statements prepared in accordance with IFRS for SMEs.

E. SEC Staff matters

Mr. Olinger referred to Item 17 of Form 20-F that requires those foreign private issuers choosing to file financial statements in accordance with IFRS without reconciliation to US GAAP to state explicitly and unreservedly in the notes to their financial statements that such financial statements are in compliance with IFRS as issued by the IASB and provide an unqualified auditor’s report that opines on that compliance. He stated that the staff has observed instances in which the required representations about compliance with “IFRS as issued by the IASB” in both the notes to the financial statements and the audit report were not included. He stated that the staff has and will continue to require registrants to amend their filings in these situations.

DATE OF NEXT MEETING

The Task Force agreed to meet on November 23, 2010.

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